

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Village of Augusta</u>	County Calhoun
Audit Date March 29, 2004	Opinion Date June 7, 2004	Date Accountant Report Submitted To State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 67 West Michigan Avenue	City Battle Creek	State MI	ZIP 49017
Accountant Signature 			

Village of Augusta

Financial Report with Additional Information

February 29, 2004

Village of Augusta

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Independent Auditor's Report

To the Village Board
Village of Augusta

We have audited the accompanying general purpose financial statements of the Village of Augusta as of February 29, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the management of the Village of Augusta. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Augusta at February 29, 2004, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

June 7, 2004

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Village of Augusta

Combined Balance Sheet - All Fund Types and Account Group February 29, 2004

	Governmental Fund Types		Proprietary Fund Types		Account Group	Totals
	General	Special Revenue	Enterprise	Internal Service	General Fixed Assets	2004
Assets						(Memorandum Only)
Cash and investments (Note 2)	\$ 104,812	\$ 49,214	\$ -	\$ 57,245	\$ -	\$ 211,271
Receivables:						-
Taxes	12,500	-	-	-	-	12,500
Customer receivables	-	-	24,683	-	-	24,683
Other	23,557	13,776	-	-	-	37,333
Due from other funds (Note 3)	82,270	-	-	-	-	82,270
Property and equipment (Note 4)	-	-	2,171,619	26,249	58,766	2,256,634
Total assets	\$ 223,139	\$ 62,990	\$ 2,196,302	\$ 83,494	\$ 58,766	\$ 2,624,691
Liabilities and Fund Equity						
Liabilities						
Accounts payable	\$ 7,675	\$ -	\$ 15,581	\$ -	\$ -	\$ 23,256
Accrued liabilities	3,811	108	10,579	-	-	14,498
Due to other funds (Note 3)	-	4,937	77,333	-	-	82,270
Long-term debt (Note 5)	-	-	655,000	22,061	-	677,061
Total liabilities	11,486	5,045	758,493	22,061	-	797,085
Fund Equity						
Investment in general fixed assets	-	-	-	-	58,766	58,766
Retained earnings	-	-	1,437,809	61,433	-	1,499,242
Fund balance	211,653	57,945	-	-	-	269,598
Total fund equity	211,653	57,945	1,437,809	61,433	58,766	1,827,606
Total liabilities and fund equity	\$ 223,139	\$ 62,990	\$ 2,196,302	\$ 83,494	\$ 58,766	\$ 2,624,691

See Notes to Financial Statements.

Village of Augusta

Combined Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual General and Special Revenue Funds Year Ended February 29, 2004

	General Fund			Special Revenue Funds			Total (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenue									
Taxes	\$ 162,000	\$ 158,863	\$ (3,137)	\$ -	\$ -	\$ -	\$ 162,000	\$ 158,863	\$ (3,137)
Licenses and permits	3,500	2,969	(531)	-	-	-	3,500	2,969	(531)
State grants	95,000	82,443	(12,557)	68,000	74,398	6,398	163,000	156,841	(6,159)
Interest	2,000	1,455	(545)	-	-	-	2,000	1,455	(545)
Other	79,500	51,594	(27,906)	-	-	-	79,500	51,594	(27,906)
Total revenue	342,000	297,324	(44,676)	68,000	74,398	6,398	410,000	371,722	(38,278)
Expenditures									
Legislative	29,200	16,086	13,114	-	-	-	29,200	16,086	13,114
General government	192,800	210,603	(17,803)	-	-	-	192,800	210,603	(17,803)
Public safety	50,500	59,869	(9,369)	-	-	-	50,500	59,869	(9,369)
Public works	23,500	15,628	7,872	42,400	46,904	(4,504)	65,900	62,532	3,368
Total expenditures	296,000	302,186	(6,186)	42,400	46,904	(4,504)	338,400	349,090	(10,690)
Excess (Deficiency) of Revenue Over Expenditures	46,000	(4,862)	(50,862)	25,600	27,494	1,894	71,600	22,632	(48,968)
Fund Balances - Beginning of year	216,515	216,515	-	30,451	30,451	-	246,966	246,966	(35,854)
Fund Balances - End of year	<u>\$ 262,515</u>	<u>\$ 211,653</u>	<u>\$ (50,862)</u>	<u>\$ 56,051</u>	<u>\$ 57,945</u>	<u>\$ 1,894</u>	<u>\$ 318,566</u>	<u>\$ 269,598</u>	<u>\$ (84,822)</u>

Village of Augusta

Statement of Revenue, Expenses and Changes in Retained Earnings - Proprietary Fund Type Year Ended February 29, 2004

	Enterprise Funds	Internal Service Fund	Totals 2004 (Memorandum Only)
Operating Revenue			
Utility billings	\$ 128,459	\$ -	\$ 128,459
Miscellaneous	34,639	-	34,639
Rental charges	18,384	46,397	64,781
Total operating revenue	181,482	46,397	227,879
Operating Expenses	236,088	26,088	262,176
Operating Income (Loss)	(54,606)	20,309	(34,297)
Nonoperating Expense			
Interest expense	(38,215)	(1,154)	(39,369)
Net Income (Loss)	(92,821)	19,155	(73,666)
Retained Earnings - Beginning of year	1,530,630	42,278	1,572,908
Retained Earnings - End of year	<u>\$ 1,437,809</u>	<u>\$ 61,433</u>	<u>\$ 1,499,242</u>

Village of Augusta

Statement of Cash Flows Proprietary Fund Type Year Ended February 29, 2004

	Enterprise Funds	Internal Service Fund
Cash Flows from Operating Activities		
Cash received from customers	\$ 173,710	\$ 46,397
Cash payments to suppliers for goods and services	(175,624)	(13,874)
Cash payments to employees for services	(20,987)	-
Net cash provided by (used in) operating activities	(22,901)	32,523
Cash Flows from Capital and Related Financing Activities		
Purchase of equipment	(14,306)	(3,967)
Payments made on long-term debt	(58,215)	(6,795)
Net cash used in capital and related financing activities	(72,521)	(10,762)
Net Increase (Decrease) in Cash and Cash Equivalents	(95,422)	21,761
Cash and Cash Equivalents - Beginning of year	95,422	35,484
Cash and Cash Equivalents - End of year	<u>\$ -</u>	<u>\$ 57,245</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating income (loss)	\$ (54,606)	\$ 20,309
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation	84,262	12,214
Amortization	600	-
Changes in assets and liabilities:		
Customer receivables	(7,771)	-
Accrued liabilities	10,565	-
Due to other funds	(55,951)	-
Net cash provided by operating activities	<u>\$ (22,901)</u>	<u>\$ 32,523</u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Village conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity - The Village is governed by an elected Village Council. The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service and special financing relationships. In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

Fund Accounting - The accounts of the Village are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in three broad fund categories as follows:

Governmental Funds

General Fund - The General Fund contains the records of the ordinary activities of the Village that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue and other sources.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for the results of operations that provide a service to Village residents that is financed primarily by a user charge for the provision of that service. The Water and Sewer Funds have been treated as Enterprise Funds.

Internal Service Fund - The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Village, or to other governments, on primarily the cost-reimbursement basis. At February 29, 2004, the only Internal Service Fund is the Equipment Fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

Account Group - General Fixed Assets Account Group - This account group presents the fixed assets of the Village utilized in its general operations (nonproprietary fixed assets).

Basis of Accounting - The accrual basis of accounting is used by the Enterprise Funds and the Internal Service Fund. All governmental funds utilize the modified-accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when they become measurable. Other revenue is recorded when received.

Properties are assessed as of July 1. The tax billings become a lien on December 1 of the following year. These taxes are due on September 30 with the final collection date of February 28 before they are added to the county tax rolls.

- b. Interest on bonded indebtedness is not recorded as an expenditure until its due date.
- c. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- d. Normally, expenditures are not divided between years by the recording of prepaid expenses.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Fixed Assets

Fixed asset purchases of the governmental funds are recorded as expenditures at the time of purchase and recorded in the General Fixed Assets Account Group.

The General Fixed Assets Account Group is not a fund and does not involve the measurement of operations.

All fixed assets recorded in the proprietary funds are valued at cost or, if donated, at their estimated fair value on the date donated.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fixed assets and long-term liabilities relating to the proprietary funds are accounted for in this fund. Depreciation on such fixed assets is charged as an expense against the operations of the proprietary fund on a straight-line basis.

Investments - Investments are recorded at fair value based on quoted market prices.

Memorandum Only Totals - The total data presented is the aggregate of the fund types and account groups and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Cash and Investments

The Village's cash and investments at February 29, 2004 are classified as follows:

Deposits	\$ 65,655
Investments	<u>145,616</u>
Totals	<u>\$ 211,271</u>

Deposits - The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$74,959 of which all was covered by federal depository insurance at February 29, 2004.

Investments - The Village is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. Government repurchase agreements, bankers acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

The Village's investments during the year consisted solely of bank investment pools. The bank investment pools are held by the Trust department of the bank, and are regulated by the Michigan Banking Act. Investments under the interlocal agreement (MILAF) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

Village of Augusta

Notes to Financial Statements February 29, 2004

Note 3 - Interfund Receivables

The following are the interfund receivables at February 29, 2004:

Fund Due To	Fund Due From	Amount
General Fund	Enterprise - Water	\$ 77,333
General Fund	Special Revenue - Major Streets	<u>4,937</u>
Total interfund receivables		<u><u>\$ 82,270</u></u>

Note 4 - Property and Equipment

A summary of general fixed assets is as follows:

Land	\$ 4,948
Land improvements	3,866
Buildings/improvements	<u>49,952</u>
Investment in general fixed assets	<u><u>\$ 58,766</u></u>

A summary of proprietary fund type assets at February 29, 2004, is as follows:

	Enterprise Funds	Internal Service Fund	Totals	Depreciable Life-Years
Water system	\$ 1,219,542	\$ -	\$ 1,219,542	30-50
Sewer lines/additions	2,316,373	-	2,316,373	50
Machinery/equipment	76,495	51,972	128,467	5-7
Vehicles	<u>-</u>	<u>105,177</u>	<u>105,177</u>	5
Total	3,612,410	157,149	3,769,559	
Less: Accumulated depreciation	<u>1,440,791</u>	<u>130,900</u>	<u>1,571,691</u>	
Undepreciated cost	<u><u>\$ 2,171,619</u></u>	<u><u>\$ 26,249</u></u>	<u><u>\$ 2,197,868</u></u>	

Depreciation expense for the year ended February 29, 2004 totaled \$84,262 for the Enterprise Funds and \$12,214 for the Internal Service Fund.

Note 5 - Long-term Debt

Outstanding Debt:

The following is a summary of the debt outstanding of the Village as of February 29, 2004:

Proprietary Fund Debt

Enterprise Fund

\$750,000 Water Supply System Improvement bond issue dated April 29, 1997, with principal payments due in annual installments ranging from \$25,000 to \$75,000 and interest payments due in semi-annual installments ranging from 5.10% to 6.00% through September 1, 2016 \$ 655,000

Internal Service Fund

\$35,389 Installment Purchase Agreement dated December 13, 2001, due in annual installments ranging from \$7,067 to \$7,644, plus interest of 4% through December 13, 2006 22,061

Total long-term debt \$ 677,061

Debt Service Requirements - The annual requirements to service all debt outstanding as of February 29, 2004, including both principal and interest, are as follows:

	<u>Bonds</u>	<u>Installment Purchase Agreement</u>
2005	\$ 62,815	\$ 7,949
2006	66,515	7,949
2007	64,925	7,949
2008	68,305	-
2009	71,380	-
Remaining years	<u>638,590</u>	<u>-</u>
Total	<u>\$ 972,530</u>	<u>\$ 23,847</u>

Village of Augusta

Notes to Financial Statements February 29, 2004

Note 5 - Long-term Debt (Continued)

Changes in Long-term Debt - The following is a summary of debt transactions of the Village for the year ended February 29, 2004:

	Water Supply System Improvement Bonds	Installment Purchase Agreement	Total
Balance - Beginning of year	\$ 675,000	\$ 28,856	\$ 703,856
Debt retired	(20,000)	(6,795)	(26,795)
Balance - End of year	<u>\$ 655,000</u>	<u>\$ 22,061</u>	<u>\$ 677,061</u>

Total interest paid by the Village during the year approximated \$40,000.

Note 6 - Budget Information

The annual budget is prepared by the Village Management and adopted by the Village Board; subsequent amendments are approved by the Village Board. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at February 29, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

The budget statement (combined statement of revenue, expenditures and changes in fund balances - budget and actual – general and special revenue funds) is presented on the same basis of accounting used in preparing the adopted budget.

The budget is adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund and Special Revenue budgets as adopted by the Village Board are included in the general purpose financial statements and include expenditure budget overruns for the year ended February 29, 2004.

Village of Augusta

Notes to Financial Statements February 29, 2004

Note 7 – Segment Information – Enterprise Funds

The Village maintains two Enterprise Funds. Segment information for the year ended February 29, 2004 is as follows:

	Water Supply		
	<u>Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenue	\$ 108,696	\$ 72,786	\$ 181,482
Depreciation	37,812	46,450	84,262
Operating loss	(25,417)	(29,189)	(54,606)
Net loss	(63,632)	(29,189)	(92,821)
Land, building, and equipment - additions	(14,306)	-	(14,306)
Total assets	793,160	1,403,142	2,196,302
Long-term debt	655,000	-	655,000
Total equity	42,498	1,395,311	1,437,809

Additional Information



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To the Village Board
Village of Augusta

We have audited the general purpose financial statements of the Village of Augusta for the year ended February 29, 2004. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Village of Augusta. This information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Plante & Moran, PLLC

June 7, 2004

Village of Augusta

General Fund Schedule of Revenue - Budget and Actual Year Ended February 29, 2004

	Budget*	Actual	Variance Favorable (Unfavorable)
Collection fees, property taxes, and interest	\$ 162,000	\$ 158,863	\$ (3,137)
License/permits	3,500	2,969	(531)
State grants	95,000	82,443	(12,557)
Interest	2,000	1,455	(545)
Other:			
District court fines	12,000	17,037	5,037
Miscellaneous	40,500	6,334	(34,166)
Administration fee	11,000	11,000	-
Cemetery income	8,000	4,552	(3,448)
Cable TV	8,000	12,671	4,671
Total other	79,500	51,594	(27,906)
Total revenue	<u><u>\$ 342,000</u></u>	<u><u>\$ 297,324</u></u>	<u><u>\$ (44,676)</u></u>

* The Village's budget was adopted on an activity basis as presented in the combined statement of revenue, expenditures and changes in fund balances - budget and actual - general fund. Information on this schedule is presented for purposes of additional analysis.

Village of Augusta

General Fund Schedule of Expenditures - Budget and Actual Year Ended February 29, 2004

	Budget*	Actual	Variance Favorable (Unfavorable)
Legislative - Village Council	\$ 29,200	\$ 16,086	\$ 13,114
General government:			
Elections	1,000	764	236
Treasurer	500	611	(111)
Hall and grounds	106,000	119,614	(13,614)
Garage	7,500	9,276	(1,776)
Inspections	3,500	3,005	495
Cemetery	20,000	18,349	1,651
Insurance and other funds	54,300	58,984	(4,684)
Total general government	192,800	210,603	(17,803)
Public safety:			
Police	50,500	56,134	(5,634)
Fire	-	3,735	(3,735)
Total public safety	50,500	59,869	(9,369)
Public works - street:			
Sidewalk construction	7,000	1,108	5,892
Lighting	13,000	12,327	673
Recycling and cleanup	1,000	2,193	(1,193)
Park maintenance	2,500	-	2,500
Total public works	23,500	15,628	7,872
Total expenditures	<u>\$ 296,000</u>	<u>\$ 302,186</u>	<u>\$ (6,186)</u>

* The Village's budget was adopted on an activity basis as presented in the combined statement of revenue, expenditures and changes in fund balances - budget and actual - general fund. Information on this schedule is presented for purposes of additional analysis.

Village of Augusta

Special Revenue Funds Combining Balance Sheet February 29, 2004

	Major Streets	Local Streets	Total
Assets			
Cash and investments	\$ 41,308	\$ 7,906	\$ 49,214
Receivables:			
Taxes	<u>9,931</u>	<u>3,845</u>	<u>13,776</u>
Total assets	<u>\$ 51,239</u>	<u>\$ 11,751</u>	<u>\$ 62,990</u>
Liabilities and Fund Balances			
Liabilities			
Accrued liabilities	\$ 54	\$ 54	\$ 108
Due to other funds	<u>4,937</u>	<u>-</u>	<u>4,937</u>
Total liabilities	4,991	54	5,045
Fund Balances	<u>46,248</u>	<u>11,697</u>	<u>57,945</u>
Total liabilities and fund balances	<u>\$ 51,239</u>	<u>\$ 11,751</u>	<u>\$ 62,990</u>

Village of Augusta

Special Revenue Funds Combining Statement of Revenue, Expenditures and Changes in Fund Balances Year Ended February 29, 2004

	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total</u>
Revenue			
State grants	\$ 53,761	\$ 20,637	\$ 74,398
Expenditures			
Public works	<u>21,512</u>	<u>25,392</u>	<u>46,904</u>
Excess (Deficiency) of Revenue Over Expenditures	32,249	(4,755)	27,494
Fund Balances - Beginning of year	<u>13,999</u>	<u>16,452</u>	<u>30,451</u>
Fund Balances - End of year	<u>\$ 46,248</u>	<u>\$ 11,697</u>	<u>\$ 57,945</u>

Village of Augusta

Special Revenue Funds Combining Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual Year Ended February 29, 2004

	Major Streets			Local Streets			Total		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenue									
State grants	\$ 48,000	\$ 53,761	\$ 5,761	\$ 20,000	\$ 20,637	\$ 637	\$ 68,000	\$ 74,398	\$ 6,398
Expenditures									
Public works:									
Administrative	2,000	2,000	-	1,000	1,000	-	3,000	3,000	-
Routine maintenance	21,200	18,867	(2,333)	16,200	23,748	(7,548)	37,400	42,615	(9,881)
Winter maintenance - snow/ice control	1,000	645	(355)	1,000	644	356	2,000	1,289	1
Total expenditures	24,200	21,512	(2,688)	18,200	25,392	(7,192)	42,400	46,904	(9,880)
Excess (Deficiency) of Revenue Over Expenditures	23,800	32,249	8,449	1,800	(4,755)	7,829	25,600	27,494	16,278
Fund Balances - Beginning of year	13,999	13,999	-	16,452	16,452	-	30,451	30,451	-
Fund Balances - End of year	\$ 37,799	\$ 46,248	\$ 8,449	\$ 18,252	\$ 11,697	\$ 7,829	\$ 56,051	\$ 57,945	\$ 16,278

Village of Augusta

All Proprietary Fund Types Combining Balance Sheet February 29, 2004

	Water Supply Fund	Sewer Fund	Total
Assets			
Cash and investments	\$ (94,777)	\$ 94,777	\$ -
Customer receivables	14,321	10,362	24,683
Property and equipment	<u>873,616</u>	<u>1,298,003</u>	<u>2,171,619</u>
Total assets	<u>\$ 793,160</u>	<u>\$ 1,403,142</u>	<u>\$ 2,196,302</u>
Liabilities and Fund Equity			
Liabilities			
Accounts payable	\$ 7,913	\$ 7,668	\$ 15,581
Accrued liabilities	10,416	163	10,579
Due to other funds	77,333	-	77,333
Long-term debt	<u>655,000</u>	<u>-</u>	<u>655,000</u>
Total liabilities	750,662	7,831	758,493
Fund Equity			
Retained earnings	<u>42,498</u>	<u>1,395,311</u>	<u>1,437,809</u>
Total liabilities and fund equity	<u>\$ 793,160</u>	<u>\$ 1,403,142</u>	<u>\$ 2,196,302</u>

Village of Augusta

All Proprietary Fund Types Combining Statement of Revenue, Expenses and Changes in Retained Earnings Year Ended February 29, 2004

	Water Supply Fund	Sewer Fund	Total
Operating Revenue			
Utility billings	\$ 74,057	\$ 54,402	\$ 128,459
Miscellaneous	34,639	-	34,639
Rental charges	<u>-</u>	<u>18,384</u>	<u>18,384</u>
Total operating revenue	108,696	72,786	181,482
Operating Expenses	<u>134,113</u>	<u>101,975</u>	<u>236,088</u>
Operating Loss	(25,417)	(29,189)	(54,606)
Nonoperating Expense			
Interest expense	<u>38,215</u>	<u>-</u>	<u>38,215</u>
Increase (Decrease) in Retained Earnings	(63,632)	(29,189)	(92,821)
Retained Earnings - Beginning of year	<u>106,130</u>	<u>1,424,500</u>	<u>1,530,630</u>
Retained Earnings - End of year	<u><u>\$ 42,498</u></u>	<u><u>\$ 1,395,311</u></u>	<u><u>\$ 1,437,809</u></u>

Village of Augusta

All Proprietary Fund Types Combining Statement of Cash Flows Year Ended February 29, 2004

	Water Supply Fund	Sewer Fund	Totals
Cash Flows from Operating Activities			
Cash received from customers	\$ 104,817	\$ 68,893	\$ 173,710
Cash payments to suppliers for goods and services	(132,612)	(43,012)	(175,624)
Cash payments to employees for services	(14,060)	(6,927)	(20,987)
Net cash provided by (used in) operating activities	(41,855)	18,954	(22,901)
Cash Flows from Capital and Related Financing Activities			
Purchase of equipment	(14,306)	-	(14,306)
Payments made on long-term debt	(58,215)	-	(58,215)
Net cash used in capital and related financing activities	(72,521)	-	(72,521)
Net Increase (Decrease) in Cash and Cash Equivalents	(114,376)	18,954	(95,422)
Cash and Cash Equivalents - Beginning of year	19,599	75,823	95,422
Cash and Cash Equivalents - End of year	<u><u>\$ (94,777)</u></u>	<u><u>\$ 94,777</u></u>	<u><u>\$ -</u></u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (25,417)	\$ (29,189)	\$ (54,606)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	37,812	46,450	84,262
Amortization	600	-	600
Changes in assets and liabilities:			
Customer receivables	(3,879)	(3,892)	(7,771)
Accrued liabilities	4,980	5,585	10,565
Due to other funds	(55,951)	-	(55,951)
Net cash provided by (used in) operating activities	<u><u>\$ (41,855)</u></u>	<u><u>\$ 18,954</u></u>	<u><u>\$ (22,901)</u></u>

Village of Augusta

Proprietary Fund Type Water and Sewer Operations Fund Schedule of Expenses Year Ended February 29, 2004

	Enterprise Funds		
	Water	Sewer	Total
Operating Expenses			
Operating	\$ 96,301	\$ 55,525	\$ 151,826
Depreciation	37,812	46,450	84,262
Total operating expenses	<u>\$ 134,113</u>	<u>\$ 101,975</u>	<u>\$ 236,088</u>

Village of Augusta

Water Supply System Improvement Bonds Schedule of Bonded Indebtedness February 29, 2004

Date of Issue April 29, 1997

Amount of Issue \$ 750,000

Bonds payable on September 1 as follows:

Year	Rate	Interest	Principal	Total
2005	5.200	\$ 37,815	\$ 25,000	\$ 62,815
2006	5.300	36,515	30,000	66,515
2007	5.000	34,925	30,000	64,925
2008	5.500	33,305	35,000	68,305
2009	5.600	31,380	40,000	71,380
2010	5.700	29,140	45,000	74,140
2011	5.750	26,575	50,000	76,575
2012	5.800	23,700	55,000	78,700
2013	5.850	20,510	60,000	80,510
2014	5.900	17,000	65,000	82,000
2015	5.950	13,165	70,000	83,165
2016	6.000	9,000	75,000	84,000
2017	6.000	4,500	75,000	79,500
Total		<u>\$ 317,530</u>	<u>\$ 655,000</u>	<u>\$ 972,530</u>

Interest is payable at the rate indicated on March 1 and September 1.

Village of Augusta

Installment Purchase Agreement Schedule of Indebtedness February 29, 2004

Date of Issue December 13, 2001

Amount of Issue \$ 35,389

Installment payable on December 13 as follows:

Year	Rate	Interest	Principal	Total
2005	4.000	\$ 882	\$ 7,067	\$ 7,949
2006	4.000	600	7,350	7,950
2007	4.000	<u>304</u>	<u>7,644</u>	<u>7,948</u>
Total		<u><u>\$ 1,786</u></u>	<u><u>\$ 22,061</u></u>	<u><u>\$ 23,847</u></u>

Interest is payable at the rate indicated on December 13.

Master Document

FIELD	VALUES
MuniNameHeadings	Village of Augusta
MuniNameText	Village of Augusta
CountyState	
MuniNameShort	Village
MuniNameShort's	Village's
Year End	February 29, 2004
Prior Year	February 28, 2003
2 Year Prior	February 28, 2002
Opinion Date	June 7, 2004
Comparative Date	February 29, 2004 and February 28, 2003
a2004	2004
a2003	2003
a2002	2002
a2001	2001

June 7, 2004

Village Council
Village of Augusta
109 West Clinton Street
Augusta, Michigan 49012

Dear Council Members:

In planning and performing our audit of the financial statements of Village of Augusta for the year ended February 29, 2004, we considered the Village's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable conditions described below are not believed to be material weaknesses.

The following section includes items we have determined to be reportable conditions:

REPORTABLE CONDITIONS

Computer System

It is our understanding through review of Village systems and discussion with Village personnel that the Village currently uses Quicken to write checks and Excel to record all the other bookkeeping transactions of the Village. Due to the flexibility of Excel, the ability to easily manipulate data, tracking general ledger information in Excel is a significant internal control weakness. We recommend the Village look into purchasing new accounting software that will interface between the check writing function and the general ledger activities. There are many inexpensive options available on the market that would significantly increase the internal controls of the Village.

Cash Receipts

During our audit, we were unable to trace a cash receipt into the bank deposit. It is our understanding that the Village accumulates cash when received and randomly makes a deposit with the bank. We recommend

that the Village keep track of the receipts that make up each deposit. This will provide an additional control on the assets of the Village. Using a duplicate receipt book may assist in this process.

Cash Disbursements

We noted during our audit, the Village Treasurer has check signing authority and performs bank reconciliations. This creates a segregation of duties issue. While we understand the limitations of a smaller municipality, we recommend the Village explore other options to ensure proper segregation. These options include an additional signature other than the Office Manager or the Village Treasurer on every check or have board member review monthly bank reconciliations.

Bank Reconciliations

In discussions with the Village, we noted bank reconciliations are performed; however, no record of the reconciliation is maintained. To maintain adequate control over the Village's assets, we recommend the Village create a standard reconciliation form and maintain a copy of the reconciliation that reconciles to the general ledger with that month's bank statement. We would be happy to provide you with a sample reconciliation, if needed.

Payroll Function

Through review of personnel files and discussions with the Village, we noted documentation of pay rates are not included in personnel files, nor are they kept on record elsewhere. Among the documents that should be included in the files are pay rate authorizations, W-4 withholding forms, Form I-9's, and authorizations for payroll deductions. We recommend the Village review the personnel files and make sure the necessary items are included.

In reviewing payroll records, we noted no timesheet for Village Treasurer for the pay period ending November 16, 2003. Per discussion with the Office Manager, hours are sometimes given verbally to the Office Manager for a pay period. We recommend a timesheet be used for every employee for every time period and that an appropriate signature is documented approving the timesheet.

Vacation, Sick, & Personal Time

During our audit, we noted several issues in the tracking and recording of vacation, sick and personal time. Through discussions with the Village and review of records, we noted one employee keeps track of his own vacation time. This represents a lack of segregation of duties. We recommend that one person maintain the function of tracking vacation, sick, and personal time for all employees. A record should be maintained of hours awarded and hours used for all employees.

It is our understanding the Village is following the old union contract guidelines regarding the accumulation of vacation and sick time. It would appear that the Village is not following these guidelines. We recommend the Village develop a new vacation, sick and personal time policy with appropriate changes or adhere to policy stated in the contract.

The union contract states vacation time is awarded each January 1st. Per review of documentation and discussion with Village personnel, vacation, sick, and personal time are awarded each October 1st. We recommend vacation, sick and personal time be awarded in conjunction with the union contract or that a new policy is created with an appropriate award year.

In addition, we noted that the Village allows time be carried over from year to year, time to be paid-out, and allows two employees personal time. The union contract addresses none of these issues. We also identified an issue with one employee that was paid-out more than what was accumulated. We recommend the Village develop a new policy or adhere to the policy already in place.

OTHER RECOMMENDATIONS AND ITEMS OF INTEREST

FIXED ASSETS

Through discussion with the Village Treasurer, we noted the Village does not have a capitalization policy. We recommend the Village institute a formal capitalization policy. We also recommend the listing be updated as additions and deletions occur throughout the year.

CREDIT CARD USAGE

Through discussion with the Office Manager, we noted the Village uses a credit card for some purchases, but there is no formal credit card usage policy. Public Act 266 of 1995 became effective in January 1996 and requires the local government adopt by resolution a written policy detailing specific criteria that must be followed. We would be more than happy to provide a sample of a credit card policy.

EMPLOYEE GIFTS

Per review of the Village Board Minutes, we noted that the Board approved the purchase of employee Christmas gifts, which is considered an unlawful expenditure. We recommend the Village review the State of Michigan's web-site for unlawful government expenditures.

NEW REPORTING MODEL – GASB 34

As we have discussed, the Governmental Accounting Standards Board issued a new pronouncement that will change the presentation of governmental financial statements. The expected benefits of the new model include improved comparability of financial statements between communities, and a better matching of the current year's revenue sources to the full cost of services provided during that year.

Some of the changes in the model include the following:

- A "Management's Discussion and Analysis" section
- Entity-wide financial statements (balance sheet and operating statements) prepared on a full accrual basis. There will be two columns, one for governmental activities and one for enterprise activities.
- Capital assets and their related depreciation will be reported.

The Village will need to fully implement GASB 34 for the year beginning March 1, 2004, which includes restating the Village's financial information as of that date for these changes. It is likely that the adoption of the new reporting model may require several changes to the Village's financial systems, especially in relation to fixed assets. Many decisions will need to be addressed and much financial information will need to be compiled in advance of the implementation date. The implementation of this new pronouncement is a significant undertaking. We will continue to advise the Village on key issues and assist in any way possible to ensure a smooth transition.

We would like to thank the Village personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

This report is intended solely for the information and use of Village Council, management, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in black ink, appearing to read "Duane Paradine".

Duane Paradine, CPA
Partner

A handwritten signature in black ink, appearing to read "Kim Hoppe".

Kim Hoppe, CPA
Associate